

13 September 2017

*The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 ("MAR"). This inside information is now considered to be in the public domain.*

## **MYCELX TECHNOLOGIES CORPORATION (AIM: MYX)**

### **Half Year Results Statement**

#### **For the six months ended 30 June 2017**

*Improved performance as successful trial work opens new country markets and renewed business development grows footprint and momentum in Saudi Arabia*

MYCELX Technologies Corporation ("MYCELX" or the "Company"), the clean water technology company providing patented solutions for the Oil and Gas market and commercial industrial markets worldwide, is pleased to announce its interim unaudited results for the six months ended 30 June 2017 for which highlights are set out below.

#### **Financial**

- 51% increase in Revenue YoY: \$5.9 million (2016 H1: \$3.9 million)
- EBITDA of \$0.3 million (2016 H1: negative \$0.6 million)
- Gross profit margin of 52.2% (2016 H1: 53.5%)

#### **Operational**

- Contract awards reflect both the culmination of successful pilot trial work in new regions and the reinvigoration of business development efforts in the MENA region:
  - Nigeria: Awarded first contract in the Nigerian Oil and Gas market to provide an onshore water treatment solution to a leading independent oil and gas producer
  - Saudi Arabia: Awarded a contract for \$1.1 million to rapidly respond to the immediate water treatment needs of a new SABIC-affiliate customer
  - Saudi Arabia: Enhanced an existing system at a SABIC-affiliate customer leading to increased operational and maintenance role and greater recurring media sales
  - Oman: Sale of Cooling Water treatment system after successful trial in 2016
  - Mauritania: Sale of oily water treatment system

#### **Post Period**

- Saudi Arabia: Extension of the rapid response unit deployment to treat additional challenging waste water at new SABIC-affiliate customer
- Canada: Successful trial for RE-GEN media with large producer in polymer flood application
- Global: Finalist for *World Oil's* 2017 Awards for Best Enhanced Oil Recovery Technology

#### **Outlook**

- Leverage business relationships in the Middle East to continue to grow downstream business in MENA
- Adopt a managed growth approach to ensure that the momentum is maintained while ensuring rigorous cost controls and cash preservation
- Continued focus on customer trials that lead to new equipment sales and recurring media revenue

- Work with Schlumberger's global sales and marketing platform to bolster the successful trial work for RE-GEN that MYCELX has undertaken with leading EOR producers

**Commenting on these results, Connie Mixon, CEO, said:**

*"The Company has made good progress in H1 2017 with a series of contract wins in new country markets while extending our footprint in core markets. In the first half we delivered a positive EBITDA, increasing revenue by \$2 million despite the continued sluggish industry environment.*

*It is pleasing that we are now beginning to see the benefits of our 2016 pilot trial strategy come to fruition with our entry into the Nigerian market where we have sold a complete treatment system for an onshore facility.*

*In Saudi Arabia, the assignment of a Director of Business Development has already resulted in new business, capitalising on the strong foundations in that core market. Looking forward, our focus will be on maintaining this renewed momentum and converting the pipeline of opportunities to achieve critical mass in Saudi Arabia and the GCC, while maintaining strict inventory and cost controls.*

*In Canada, India and the Middle East, our collaborative study undertaken with SNF Floerger has led to further interest and trials for leading Enhanced Oil Recovery (EOR) producers. These trials, together with our strategic partnership with Schlumberger, are helping to increase industry recognition of the step change improvement that our RE-GEN product delivers. This is further demonstrated by the fact that MYCELX RE-GEN was nominated as a finalist for Best EOR Technology in the 2017 World Oil Awards, and we have been asked to speak at the upcoming Produced Water Society Conference in the Middle East.*

*MYCELX is a technology company that continues to expand its exceptional water treatment expertise. MYCELX's growing knowledge base supports the innovation and commercialisation of next generation technology to meet our customers' current and future needs. We are more reliable and cost effective than outdated conventional methods. The oil and gas and petrochemical industries are integrating MYCELX® technology into critical, real-time production and processes, where increased uptime performance goes straight to the bottom line. Our technology will deliver sustainable water treatment for years to come."*

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### **Chairman's and Chief Executive Officer's Statement**

#### *Introduction:*

Market conditions during the first half of 2017 continued to be challenging for the oil and gas industry as uncertainty remains around the strength of the oil price recovery and the petrochemical industry remains in tight cost control mode. The oil and gas service sector experienced more consolidation as a result of two years of curtailed activity and delayed investment by producers. In the face of this tenuous and extremely cost-conscious market, MYCELX is pleased to report that the Company has delivered a positive EBITDA for H1 2017, increasing revenue by \$2 million, compared to H1 2016, despite the continued sluggish industry environment. We have achieved this improved performance from a combination of renewed business development and the strict cost control measures that have become engrained in the Company's general approach. It is this managed growth approach that will allow the Company to successfully navigate an industry well known for its boom and bust cycles.

Our H1 results were underpinned by winning two large contracts, one in a new country and the other extending our footprint in our leading market, and we are pleased to note a resurgence in momentum in the Company's efforts across all operational fronts. Opening up the Nigerian market offers a host of opportunities where our solutions will both improve water treatment but also enhance production. In Saudi Arabia, our new Director of Business Development is spearheading efforts to leverage our strategic assets to chase down opportunities. Successful trial collaboration work on RE-GEN with SNF Floerger has led to in-field trials where RE-GEN has demonstrated its superior capability to leading EOR producers across the globe. These trials together with our strategic partnership with Schlumberger are helping to increase industry recognition of the step change improvement that our RE-GEN product delivers. This is further demonstrated by the fact that RE-GEN has been nominated as a finalist for Best EOR Technology in the 2017 World Oil Awards.

### **Operational Review**

#### *Middle East and North Africa*

The first half of 2017 has seen a resurgence in momentum in the MENA region for MYCELX, especially within Saudi Arabia. Recognizing the immense opportunities in the region, in early 2017 the Company added a Director of Business Development for MENA and Asia who resides in and oversees the regional business initiative from Al Jubail Industrial City, where the Company has had continuous business operations since 2010. This addition of this position demonstrates the enthusiasm the Company has for the future of MYCELX technology in the region. This appointment has acted as the necessary catalyst to consolidate our position and restore momentum in this core market. By leveraging our strong track record, proven cost saving solutions and the ability to deploy quickly, due to our in-country rental equipment fleet, we have been able to chase down and seize new opportunities. This renewed and proactive engagement with existing customers is leading to new opportunities, with customers considering either expansions of existing MYCELX systems or deployment of our technology for further applications

at their sites. In this manner, a new customer win for the Company is merely the beginning of a relationship that can lead to several contract wins.

The Company has ongoing activity in the downstream and upstream markets in the GCC. In the downstream petrochemical sector, the Company is treating quench water for reuse in the petrochemical process, managing challenging oily water onsite by deploying equipment from the rental fleet and is engaged in intermittent plant turnaround operations. The Company's downstream strategy continues to target delivering reliable production uptime in the quench water loop which creates cost benefits that directly enhance the bottom line. This niche application and unique capability is attributable to the small footprint and highly efficient technology MYCELX provides, where space is limited and performance is key to ongoing operations and consistent production. In the upstream sector, the target market is produced water treatment during EOR production. The aging fields in the Middle East are deploying advanced EOR methods to extract more oil from their reservoirs. These methods require more advanced water treatment and MYCELX has been successfully trialed in the Middle East and other locations to treat EOR produced water. The Company views the EOR market as one of the largest water plays for years to come.

One of the key reasons that our Saudi Arabian customers choose MYCELX solutions is that we are always ready and prepared to solve their problems. We have a dedicated 24/7 hour service office in Jubail, and our rental equipment fleet has meant that we can quickly deploy solutions to their sites. It was this rapid response customer service that led to our recent new SABIC customer win. MYCELX was awarded a \$1.1 million contract to rapidly deploy its in-country rental fleet equipment to treat an immediate waste water situation. Our solution was so successful and cost effective that the customer requested that we extend our deployment of the unit to treat other waste water sources. Recognition that our solutions offer superior treatment performance and significant cost benefits by removing the need for costly haulage off site is growing within Saudi Arabia and has resulted in further opportunities which the Company is currently pursuing.

Adding to the large scale wins, the Company was awarded two small-scale contracts to deliver oily water treatment systems in Oman and Mauritania. Each of these installations will produce recurring revenue adding to the ongoing legacy media sales.

### *Nigeria*

In an exciting contract award for the Company, MYCELX opened the Nigerian market with the sale of an onshore water treatment solution to a leading independent oil and gas producer focused on the development of its reserves in the Niger Delta. MYCELX's complete water system will be deployed to solve cost effectively the current and future water challenges as the operator progresses to use water injection and enhanced oil recovery techniques to further increase production and reserves. The sale of this complete system is important not only because it opens up an exciting new geographical frontier for MYCELX and supports our internal 2017 growth projections, but it also marks the first contract award from our concerted efforts in 2016 of working directly with clients to explore how our technology can best support their goals through many months of trials and collaboration. The on-going sale of filter media will further add to MYCELX's recurring revenue base. The Company will continue to market in Nigeria where it sees vast opportunity for its technology. MYCELX not only supports the goals of producers who are striving to reduce the environmental impact of industry, it fits their plans to ramp up their production into the future using enhanced oil recovery techniques which plays to MYCELX's experience and strength.

## *North America*

MYCELX operates in both the offshore and onshore markets in the United States. Due to our technology's small footprint, we have been retrofitted or scoped into the design of Gulf of Mexico rigs such as Jack St Malo. During H1, the Company has seen an improvement in the demand for media from such installations. The US onshore market is ramping up activity with certain producers aggressively increasing production, which will require more effective produced water recycling. Our innovative technology enables producers to recycle produced water while mitigating the need for fresh water during operations and is in increasing demand. MYCELX is working with its strategic partner Schlumberger on pursuing the US onshore market with an advanced water recycle system that includes effective complementary technologies. MYCELX has sold and supported systems for onshore water treatment in the past therefore we are enthusiastic the combined system will bring better performance to produced water recycle applications.

## *EOR – Canada & India*

MYCELX's efforts in the EOR market are focused on growing industry recognition of our RE-GEN media's superior results when treating EOR produced water. In 2016, MYCELX collaborated with SNF Floerger on a white paper that demonstrated in the lab that RE-GEN was able to effectively treat polymer laden water, and actually preserves the valuable polymer thereby improving the overall economics of this effective EOR technique. As a result of that collaborative paper, MYCELX was invited to conduct onsite trials with some of the leading polymer flood producers in the world.

Post the period under review, MYCELX conducted a successful RE-GEN media trial at a polymer flood field with a major Canadian producer. With the improved oil price, producers are once again looking to implement technology that provides cost benefits and performance beyond what they have experienced with conventional technologies. The capabilities of the RE-GEN media in polymer flood applications is best demonstrated with pilot trials so the end user sees first-hand the remarkable performance and ease of operation. The primary goal of the trials is to highlight the differentiators of RE-GEN and conventional equipment that is onsite. This approach has had the greatest impact on end users. MYCELX has been active in Alberta for five years and, with the oil price recovery, looks forward to pushing forward in a market where increased EOR activity looks set to continue well into the future.

During H1 the Company also continued trialing in India where production goals for future field expansion lie in further implementation of enhanced oil recovery techniques. These projects are extremely complex and have far-reaching implications for the producers. As such, the timelines are long. Nonetheless, lessons learned and the vast experience MYCELX has gained through prolonged onsite EOR trials is unparalleled and invaluable to future success in India and elsewhere globally. MYCELX RE-GEN media is capable of treating water during enhanced oil recovery operations and polymer flood in particular. Recognizing conventional water treatment in the EOR market has struggled to match the production technique advances, MYCELX will continue to trial our technology to showcase the efficacy of the RE-GEN media in this lucrative global application and leverage the knowledge base the Company has amassed.

## Financial

Total revenue increased by 51.3% to \$5.9 million for the first half of 2017, compared to \$3.9 million in the first half of 2016. Revenue from equipment sales and leases increased by 130.8% to \$3.0 million in the first half of 2017 (2016 H1: \$1.3 million), while revenue from consumable filtration media and service increased 11.5% to \$2.9 million (2016 H1: \$2.6 million). Gross profit increased by 47.6% to \$3.1 million in the first half of 2017, compared to \$2.1 million in the first half of 2016. Gross profit margin decreased in the first half of 2017 to 52.2% (2016 H1: 53.5%) due to a larger portion of total revenue coming from equipment sales.

Total operating expenses for the first half of 2017 were \$3.4 million which is consistent with the first half of 2016. The largest component of operating expenses was selling, general and administrative ("SG&A") expenses which includes \$1.8 million of staff costs.

EBITDA was \$300,000 for the first half of 2017, compared to negative \$600,000 for the first half of 2016. EBITDA is net income before interest expense, provision for income taxes, depreciation and amortisation of fixed and intangible assets including depreciation of leased equipment which is included in cost of goods sold. The Company uses EBITDA as the profitability measure for making decisions regarding allocating resources and assessing performance.

The Company recorded a loss before tax of \$350,000 in the first half of 2017 compared to a loss before tax of \$1.4 million in the first half of 2016. Basic loss per share was 3 cents for the first half of 2017, compared to basic loss per share of 8 cents for the first half of 2016.

Cash preservation continues to be an imperative for the Company and MYCELX ended the period with \$4.7 million of cash and cash equivalents, including restricted cash. The Company experienced an operating cash outflow of approximately \$900,000 in the first half of 2017, compared to an operating cash inflow of \$200,000 for the first half of 2016. The outflow was due to the timing of customer payments that were subsequently received in early July.

In keeping with the goals and parameters set in 2015 the Company will continue to be a prudent steward of its cash with monitoring in place to ensure specific measures are taken in the event of a revenue shortfall or contract delay during the year and any additional equipment purchased will be supported by a sales contract. The ability to convert business development opportunities into cash generation while maintaining effective expense control demonstrates the discipline and focus of the entire Company.

## Outlook

As the market recovers and resets the Board of Directors and the Company are well aware of the challenges the Company faces. MYCELX believes that market conditions could improve in H2 but is maintaining a cautious outlook for its business for the remainder of the year. We plan to enhance our prospects for new contract wins, preserve existing revenue streams and maintain our cost control program. We continue to believe long-term success and building a global brand will be achieved by engaging in large scale projects as well as smaller scale, fast-to-market opportunities of which both have been achieved in H1. We continue to progress large, complex projects by undertaking paid trials to refine the water treatment solution to meet customers' specific requirements. During H1 and post period we closed three small scale projects which was a goal of the Company mentioned last year. These projects will bridge the gap of lengthy project timelines and will be additive to annual recurring revenue for years to come.

Our immediate growth strategy remains focused on geographic regions of the Middle East, North America and the recent addition of Nigeria. While tenuous, the improved price stability in the Oil and Gas market as well as industry producers adjusting to the new oil price range has resulted in opportunities with operators keen to seek out advanced technology. MYCELX offers better performance, cost benefits through increased production uptime and relief from conventional technology that struggles to keep pace with new extraction techniques and process improvements. Each of our targeted geographical markets is water stressed therefore each has need and significant bottom-line incentive to adopt technology that offers better uptime performance, requires less water during operations and supports major environmental goals in the region.

We continue to pursue strategic partnerships to leverage sales and marketing platforms that value differentiated technology. It is clear that the Oil and Gas industry wants and needs technology that can effectively perform and deliver strong cost benefits to operations. The ongoing adoption of MYCELX technology as demonstrated by more contract wins is further confirmation that our technology has its role in achieving sustainable water treatment for years to come. Our strategic partnership with Schlumberger has supported these efforts to broadcast our capabilities to a wider global audience. Our goal is to be the industry leader by providing the technology and expertise necessary to stay ahead of the production and process advancements of the Oil and Gas industry and paving the way for the future of water treatment.

MYCELX management takes a focused approach and constantly refines its evaluation process for project pipeline opportunities to ensure all resources expended are cost efficient and in alignment with project expectations. We continue to take a risked approach to our revenue outlook and taken together with our cost cutting initiatives the Company is on track to achieve our cash goals for the full year 2017.

At its core, the Company is a technology company with exceptional water expertise gained through onsite, real-time water treatment experience. The library of knowledge the Company has amassed in its specific applications with MYCELX technology is unparalleled in industry. The Company will continue to use this knowledge to innovate and pave the way for next generation technology to meet our customers' current and future needs more reliably and cost effectively than outdated conventional methods. The endorsement and support of Schlumberger in upstream along with the footprint we have established with leading operators around the world positions MYCELX well to achieve its ultimate goal of becoming the new industry standard for water treatment.

**Tim Eggar**  
Chairman  
13 September 2017

**Connie Mixon**  
Chief Executive Officer

**MYCELX TECHNOLOGIES CORPORATION**  
**Statements of Operations**  
(USD, in thousands, except share data)

	<i>Six Months Ended 30 June 2017 (unaudited)</i>	<i>Six Months Ended 30 June 2016 (unaudited)</i>	<i>Year Ended 31 December 2016</i>
<b>Revenue</b>	<b>5,877</b>	<b>3,945</b>	<b>7,923</b>
Cost of goods sold	2,808	1,834	3,820
<b>Gross profit</b>	<b>3,069</b>	<b>2,111</b>	<b>4,103</b>
<b>Operating expenses:</b>			
Selling, general and administrative	3,160	3,180	6,588
Depreciation and amortisation	216	268	499
<b>Total operating expenses</b>	<b>3,376</b>	<b>3,448</b>	<b>7,087</b>
<b>Operating loss</b>	<b>(307)</b>	<b>(1,337)</b>	<b>(2,984)</b>
<b>Other expense</b>			
Loss on disposal of equipment	-	-	(2)
Interest expense	(45)	(47)	(94)
<b>Loss before income taxes</b>	<b>(352)</b>	<b>(1,384)</b>	<b>(3,080)</b>
Provision for income taxes	(152)	(116)	(199)
<b>Net loss</b>	<b>(504)</b>	<b>(1,500)</b>	<b>(3,279)</b>
<b>Loss per share-basic</b>	<b>(0.03)</b>	<b>(0.08)</b>	<b>(0.17)</b>
Loss per share-diluted	(0.03)	(0.08)	(0.17)
<b>Shares used to compute basic loss per share</b>	<b>18,770,117</b>	<b>18,770,117</b>	<b>18,770,117</b>
<b>Shares used to compute diluted loss per share</b>	<b>18,770,117</b>	<b>18,770,117</b>	<b>18,770,117</b>

The accompanying notes are an integral part of the financial statements.



**MYCELX TECHNOLOGIES CORPORATION**  
**Balance Sheets**  
**(USD, in thousands, except share data)**

	<i>As of 30 June 2017 (unaudited)</i>	<i>As of 30 June 2016 (unaudited)</i>	<i>As of 31 December 2016</i>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4,170	5,246	5,139
Restricted cash	500	500	500
Accounts receivable - net	3,866	2,502	1,941
Unbilled accounts receivable	680	57	94
Inventory	3,070	3,269	3,190
Prepaid expenses	348	205	126
Other assets	33	76	36
<b>Total Current Assets</b>	<b>12,667</b>	<b>11,855</b>	<b>11,026</b>
Property and equipment – net	9,299		10,487
		11,213	
Intangible assets – net	844	811	852
<b>Total Assets</b>	<b>22,810</b>	<b>23,879</b>	<b>22,365</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable	891	531	657
Payroll and accrued expenses	487	629	425
Deferred revenue	661	-	-
Note payable – current	87	83	85
Other current liabilities	437	119	436
<b>Total Current Liabilities</b>	<b>2,563</b>	<b>1,362</b>	<b>1,603</b>
Note payable – long-term	1,877	1,964	1,921
<b>Total Liabilities</b>	<b>4,440</b>	<b>3,326</b>	<b>3,524</b>
<b>Stockholders' Equity</b>			
Common stock, \$0.025 par value, 100,000,000 shares authorised, 18,770,117 shares issued and outstanding at 30 June 2017 and 2016, and 31 December 2016.	469	469	469
Additional paid-in capital	40,358	40,258	40,325
Accumulated deficit	(22,457)	(20,174)	(21,953)
<b>Total Stockholders' Equity</b>	<b>18,370</b>	<b>20,553</b>	<b>18,841</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>22,810</b>	<b>23,879</b>	<b>22,365</b>

The accompanying notes are an integral part of the financial statements.

**MYCELX TECHNOLOGIES CORPORATION**  
**Statements of Stockholders' Equity**  
**(USD, in thousands)**

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	
	<b>Shares</b>	<b>\$</b>	<b>Paid-in Capital \$</b>	<b>Deficit \$</b>	<b>Total \$</b>
<b>Balances at 31 December 2015</b>	<b>18,770</b>	<b>469</b>	<b>40,202</b>	<b>(18,674)</b>	<b>21,997</b>
Stock-based compensation expense	-	-	56	-	56
Net loss for the period	-	-	-	(1,500)	(1,500)
<b>Balances at 30 June 2016 (unaudited)</b>	<b>18,770</b>	<b>469</b>	<b>40,258</b>	<b>(20,174)</b>	<b>20,553</b>
Stock-based compensation expense	-	-	67	-	67
Net loss for the period	-	-	-	(1,779)	(1,779)
<b>Balances at 31 December 2016</b>	<b>18,770</b>	<b>469</b>	<b>40,325</b>	<b>(21,953)</b>	<b>18,841</b>
Stock-based compensation expense	-	-	33	-	33
Net loss for the period	-	-	-	(504)	(504)
<b>Balances at 30 June 2017 (unaudited)</b>	<b>18,770</b>	<b>469</b>	<b>40,358</b>	<b>(22,457)</b>	<b>18,370</b>

The accompanying notes are an integral part of the financial statements.

**MYCELX TECHNOLOGIES CORPORATION**
**Statements of Cash Flows**
**(USD, in thousands)**

	<i>Six Months Ended 30 June 2017 (unaudited)</i>	<i>Six Months Ended 30 June 2016 (unaudited)</i>	<i>Year Ended 31 December 2016</i>
<b>Cash flow from operating activities</b>			
Net loss	(504)	(1,500)	(3,279)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortisation	617	728	1,384
Loss from disposition of equipment	-	-	2
Stock compensation	33	56	123
Change in operating assets and liabilities:			
Accounts receivable	(1,925)	353	914
Unbilled accounts receivable	(586)	(37)	(74)
Inventory	716	521	591
Prepaid expenses	(222)	(1)	78
Other assets	3	33	73
Accounts payable	234	46	172
Payroll and accrued expenses	62	52	(158)
Deferred revenue	661	(42)	(42)
Other current liabilities	1	4	321
<b>Net cash (used in) provided by operating activities</b>	<b>(910)</b>	<b>213</b>	<b>105</b>
<b>Cash flow from investing activities</b>			
Payments for purchases of property and equipment	(2)	(207)	(109)
Proceeds from sale of property and equipment	-	-	7
Payments for purchases of intangible assets	(15)	(22)	(85)
<b>Net cash used in investing activities</b>	<b>(17)</b>	<b>(229)</b>	<b>(187)</b>
<b>Cash flows from financing activities</b>			
Payments on notes payable	(42)	(34)	(75)
<b>Net cash used in financing activities</b>	<b>(42)</b>	<b>(34)</b>	<b>(75)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(969)</b>	<b>(50)</b>	<b>(157)</b>
Cash and cash equivalents, beginning of period	5,139	5,296	5,296
<b>Cash and cash equivalents, end of period</b>	<b>4,170</b>	<b>5,246</b>	<b>5,139</b>
<b>Supplemental disclosures of cash flow information:</b>			
Cash payments for interest	45	39	86
Cash and non-cash payments for income taxes	159	164	216
Non-cash movements of inventory and fixed assets	596	(102)	(9)

Management considered the effect of exchange rate changes on cash and cash equivalents held or due in foreign currency and deemed it immaterial to the statement of cash flows.

The accompanying notes are an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Nature of business and basis of presentation

**Basis of presentation** – These interim financial statements have been prepared using recognition and measurement principles of Generally Accepted Accounting Principles in the United States of America (“U.S. GAAP”).

The interim financial statements for the six months ended 30 June 2017 and 2016 have not been audited.

**Nature of business** – MYCELX Technologies Corporation (“MYCELX” or the “Company”) was incorporated in the State of Georgia on 24 March 1994. The Company is headquartered in Duluth, Georgia with operations in Houston, Texas, Saudi Arabia, India and the United Kingdom. The Company provides clean water technology equipment and related services to the oil and gas, power, marine and heavy manufacturing sectors and the majority of its revenue is derived from the Middle East and United States.

### 2. Summary of significant accounting policies

**Use of estimates** – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The primary estimates and assumptions made relate to depreciation and amortisation, share-based compensation and deferred taxes. Actual results could differ from these estimates and the differences may be material to the financial statements.

**Cash and cash equivalents** – Cash and cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase. At 30 June 2017, all of the Company’s cash and cash equivalent balances were held in non interest-bearing transaction accounts. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At 30 June 2017 and 2016, and 31 December 2016, cash in non-U.S. institutions was \$98,000, \$140,000 and \$140,000, respectively. The Company has not experienced any losses in such accounts.

**Restricted cash** – The Company classifies as restricted cash all cash whose use is limited by contractual provisions. At 30 June 2017 and 2016, and 31 December 2016, restricted cash included \$500,000 cash on deposit in a money market account as required by a lender (see Note 9).

**Trade accounts receivable** – Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers and maintains allowances for doubtful accounts, as necessary. Accounts are considered past due based on the contractual terms of the transaction. Credit losses, when realised, have been within the range of the Company’s expectations and, historically, have not been significant. The allowance for doubtful accounts at 30 June 2017 and 2016, and 31 December 2016 was \$208,000, \$nil and \$143,000, respectively.

**Inventories** – Inventories consist primarily of raw materials and filter media finished goods as well as equipment to house the filter media and are stated at the lower of cost or net realisable value. Equipment that is in the process of being constructed for sale or lease to customers is also included in inventory (work-in-progress). The Company applies the FIFO method (first in; first out) to account for inventory. Manufacturing work-in-progress and finished products inventory include all direct costs, such as labor and

material, and those indirect costs which are related to production, such as indirect labor, rents, supplies, repairs and depreciation costs. A valuation reserve is recorded for slow moving or obsolete inventory items to reduce the cost of inventory to its net realisable value.

**Prepaid expenses and other current assets** – Prepaid expenses and other current assets include non-trade receivables that are collectible in less than twelve months, security deposits on leased space and various prepaid amounts that will be charged to expenses within twelve months. Non-trade receivables that are collectible in twelve months or more are included in long-term assets.

**Property and equipment** – All property and equipment are valued at cost. Depreciation is computed using the straight-line method for financial reporting over the following useful lives:

Buildings	39 years
Leasehold improvements	1-5 years
Office equipment	3-10 years
Manufacturing equipment	5-15 years
Research and development equipment	5-10 years
Purchased software	1-5 years
Equipment leased to customers	3-10 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalised. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense includes depreciation on equipment leased to customers and is included in cost of goods sold.

**Intangible assets** – Intangible assets consist of the costs incurred to purchase patent rights and legal and registration costs incurred to internally develop patents. Intangible assets are reported net of accumulated amortisation. Patents are amortised using the straight-line method over a period based on their contractual lives which approximates their estimated useful lives.

**Revenue recognition** – The Company's revenue consists of media product and equipment sales. Revenues from media sales are recognised, net of sales allowances and sales tax, when products are shipped and risk of loss has transferred to customers, collection is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. The Company offers customers the option to lease or purchase their equipment. Lease agreements range from one to twenty-four months in length and are renewed at the end of each agreement, if necessary. The lease agreements meet the criteria for classification as operating leases; accordingly, revenue on lease agreements is recognised as income over the lease term. Revenues on long-term contracts related to construction of equipment are recognised, net of sales tax, on the percentage-of-completion basis using costs incurred compared to total estimated costs. Costs are recognised and considered for percentage-of-completion as they are incurred in the manufacture of the equipment. Therefore, revenues may not be related to the progress billings to customers. Revenues are based on estimates, and the uncertainty inherent in estimates initially is reduced progressively as work on the contract nears completion. Revenues on sales in which equipment is pre-fabricated and stocked in inventory are recognised, net of sales tax, upon shipment of the equipment to the customer.

Contract costs include all direct labor and benefits, materials unique to or installed to the project, subcontractor costs, as well as costs relative to contract performance such as travel to a customer site and shipping charges. Provision for estimated losses on uncompleted contracts is recorded in the period

in which such losses are probable and estimable. No such provisions have been recognised as of 30 June 2017 and 2016, and 31 December 2016. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income, which are recognised in the period in which the revisions are determined. Actual results could vary from estimates used in the financial statements.

Unbilled accounts receivable represents revenues recognised in excess of amounts billed. Deferred revenue represents billings in excess of revenues recognised. Contract retentions are recorded as a component of accounts receivable.

***Impairment of long-lived assets*** – Long-lived assets to be held and used, including property and equipment and intangible assets with definite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss, if any, is recognised for the difference between the fair value and carrying value of the assets. Impairment analyses, when performed, are based on the Company's business and technology strategy, management's views of growth rates for the Company's business, anticipated future economic and regulatory conditions, and expected technological availability. For purposes of recognition and measurement, the Company groups its long-lived assets at the lowest level for which there are identifiable cash flows, which are largely independent of the cash flows of other assets and liabilities. No impairment charges were recorded in the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016.

***Shipping and handling costs*** – Consistent with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-45-50 Shipping and Handling Fees and Costs, the Company classifies shipping and handling amounts billed to customers as revenue, and shipping and handling costs as a component of costs of goods sold.

***Research and development costs*** – Research and development costs are expensed as incurred. There was no Research and development expense for the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016.

***Advertising costs*** – The Company expenses advertising costs as incurred. Advertising expense for the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016 was approximately \$nil, \$nil and \$4,000, respectively, and is recorded in selling, general and administrative expenses.

***Rent expense*** – The Company records rent expense on a straight-line basis for operating lease agreements that contain escalating rent clauses. The deferred rent liability included in other current liabilities in the accompanying balance sheet represents the cumulative difference between rent expense recognised on the straight-line basis and the actual rent paid.

***Income taxes*** – The provision for income taxes for interim and annual periods is determined using the asset and liability method, under which deferred tax assets and liabilities are calculated based on the temporary differences between the financial statement carrying amounts and income tax bases of assets and liabilities using currently enacted tax rates. The deferred tax assets are recorded net of a valuation allowance when, based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realised in future periods. Decreases to the valuation allowance are recorded as reductions to the provision for income taxes and increases to the valuation allowance result in additional provision for income taxes. The realisation of the deferred tax assets, net of a valuation allowance, is primarily dependent on the ability to generate taxable income. A change in the Company's estimate of future taxable income may require an addition or reduction to the valuation allowance.

The benefit from an uncertain income tax position is not recognised if it has less than a 50 percent likelihood of being sustained upon audit by the relevant authority. For positions that are more than 50 percent likely to be sustained, the benefit is recognised at the largest amount that is more-likely-than-not to be sustained. An uncertain income tax position is not recognised if it has less than a 50 percent likelihood of being sustained. Where a net operating loss carried forward, a similar tax loss or a tax credit carry forward exists, an unrecognised tax benefit is presented as a reduction to a deferred tax asset. Otherwise, the Company classifies its obligations for uncertain tax positions as other non-current liabilities unless expected to be paid within one year. Liabilities expected to be paid within one year are included in the accrued expenses account.

The Company recognises interest accrued related to tax in interest expense and penalties in selling, general and administrative expenses. During the six months ending 30 June 2017 and 2016, and the year ended 31 December 2016 the Company recognised no interest or penalties.

**Earnings per share** – Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon conversion of the exercise of common stock options. Potentially dilutive shares are excluded from the computation if their effect is antidilutive. Total common stock equivalents that were excluded from computing diluted net loss per share were approximately 1,043,441, 1,106,645, and 1,125,640 for the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016, respectively.

**Fair value of financial instruments** – The Company uses the framework in ASC 820, Fair Value Measurements and Disclosures, to determine the fair value of its financial assets. ASC 820 establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value and expands financial statement disclosures about fair value measurements.

The hierarchy established by ASC 820 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described below:

- **Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3:** Unobservable inputs for the asset or liability.

There were no significant transfers into or out of each level of the fair value hierarchy for assets measured at the fair value for the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016.

All transfers are recognised by the Company at the end of each reporting period.

Transfers between Levels 1 and 2 generally relate to whether a market becomes active or inactive. Transfers between Levels 2 and 3 generally relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety.

The Company's financial instruments as of 30 June 2017 and 2016, and 31 December 2016 include cash and cash equivalents, accounts receivable, accounts payable, the line of credit, and the note payable. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and the line of credit approximate fair value due to the short-term nature of those assets and liabilities. The Company believes it is impractical to disclose the fair value of the note payable as it is an illiquid financial instrument.

**Foreign currency transactions** – From time to time the Company transacts business in foreign currencies (currencies other than the United States Dollar). These transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency transaction gains or losses are included in selling, general and administrative expenses.

**Share-based compensation** – The Company issues equity-settled share-based awards to certain employees, which are measured at fair value at the date of grant. The fair value determined at the grant date is expensed, based on the Company's estimate of shares that will eventually vest, on a straight-line basis over the vesting period. Fair value for the share awards representing equity interests identical to those associated with shares traded in the open market is determined using the market price at the date of grant. Fair value is measured by use of the Black Scholes valuation model (see Note 10).

**Recently issued accounting standards** – In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)", as subsequently amended, which is the new comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The standards' core principle is that a company will recognise revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for all entities by one year. Accordingly, the standard is effective for annual periods beginning after 15 December 2018, and interim periods therein, with early adoption permitted. Entities will have the option of using either a full retrospective approach or a modified approach to adopt the guidance. The Company is currently evaluating the impact of adopting this guidance but does not expect it to have a material impact on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", which requires lessees to recognise on the balance sheet the assets and liabilities for the rights and obligations created by the leases with lease terms of more than twelve months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will continue to primarily depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases be recognised on the balance sheet, the new standard will require both types of leases to be recognised on the balance sheet. The new standard also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The new standard is effective for fiscal years beginning after 15 December 2019, and for interim and annual periods thereafter, with early application permitted. The Company is currently evaluating the impact of adopting this guidance but does not expect it to have a material impact on the Company's financial statements.



In March 2016, the FASB issued ASU 2016-09, “Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”, which amends several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The standard is effective for annual reporting periods beginning after 15 December 2017, and interim periods within annual periods beginning after 15 December 2018, with early application permitted. The Company is currently evaluating the impact of adopting this guidance but does not expect it to have a material impact on the Company’s financial statements.

### 3. Accounts receivable

Accounts receivable and their respective allowance amounts at 30 June 2017 and 2016, and 31 December 2016:

	30 June 2017 US\$000	30 June 2016 US\$000	31 December 2016 US\$000
Accounts receivable	4,074	2,502	2,084
Less: allowance for doubtful accounts	(208)	-	(143)
Total receivable - net	<u>3,866</u>	<u>2,502</u>	<u>1,941</u>

### 4. Inventories

Inventories consist of the following at 30 June 2017 and 2016, and 31 December 2016:

	30 June 2017 US\$000	30 June 2016 US\$000	31 December 2016 US\$000
Raw materials	735	797	756
Work-in-progress	4	1	-
Finished goods	<u>2,331</u>	<u>2,471</u>	<u>2,434</u>
Total inventory - net	<u>3,070</u>	<u>3,269</u>	<u>3,190</u>

### 5. Property and equipment

Property and equipment consists of the following at 30 June 2017 and 2016, and 31 December 2016:

	30 June 2017 US\$000	30 June 2016 US\$000	31 December 2016 US\$000
Land	709	709	709

Building	2,724	2,724	2,724
Leasehold improvements	341	340	341
Office equipment	718	745	723
Manufacturing equipment	854	917	854
Research and development equipment	514	514	514
Purchased software	222	222	222
Equipment leased to customers	8,464	8,884	8,837
Construction in progress	443	826	730
	<u>14,989</u>	<u>15,881</u>	<u>15,654</u>
Less: accumulated depreciation	<u>(5,690)</u>	<u>(4,668)</u>	<u>(5,167)</u>
Property and equipment – net	<u>9,299</u>	<u>11,213</u>	<u>10,487</u>

During the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016, the Company removed property, plant and equipment and the associated accumulated depreciation of approximately \$71,000, \$48,000 and \$183,000, respectively, to reflect the disposal of property, plant and equipment.

Depreciation expense for the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016 was approximately \$594,000, \$708,000 and \$1,342,000, respectively, and includes depreciation on equipment leased to customers. Depreciation expense on equipment leased to customers included in cost of goods sold for the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016 was \$401,000, \$460,000 and \$885,000, respectively.

## 6. Intangible assets

During 2009, the Company entered into a patent rights purchase agreement with a shareholder. The agreement provided for the immediate payment of \$28,000 in 2009 with the possibility of an additional \$72,000 based on profits on the sales of a particular product. During 2010, the Company paid \$22,000 based on profits on the sales of the product and paid the remaining \$50,000 in 2011. The patent is amortised utilising the straight-line method over a useful life of 17 years which represents the legal life of the patent from inception. Accumulated amortisation on the patent was approximately \$42,000, \$36,000 and \$39,000 as of 30 June 2017 and 2016, and 31 December 2016, respectively.

In addition to the purchased patent, the Company has internally developed patents. Internally developed patents include legal and registration costs incurred to obtain the respective patents. The Company currently holds various patents and numerous pending patent applications in the United States, as well as numerous foreign jurisdictions outside of the United States.

Intangible assets as of 30 June 2017 and 2016, and 31 December 2016 consist of the following:

	<i>Weighted Average Useful lives</i>	<i>30 June 2017 US\$000</i>	<i>30 June 2016 US\$000</i>	<i>31 December 2016 US\$000</i>
Internally developed patents	15 years	1,255	1,177	1,240
Purchased patents	17 years	<u>100</u>	<u>100</u>	<u>100</u>
		1,355	1,277	1,340
Less accumulated amortisation		<u>(511)</u>	<u>(466)</u>	<u>(488)</u>
Intangible assets – net		<u>844</u>	<u>811</u>	<u>852</u>

Approximate aggregate future amortisation expense is as follows:

Year ending 31 December (USD, in thousands)

2017	23
2018	46
2019	42
2020	41
2021	41
Thereafter	223

Amortisation expense for the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016 was approximately \$23,000, \$20,000 and \$42,000, respectively.

## 7. Income taxes

The components of income taxes shown in the consolidated statements of operations are as follows:

	30 June 2017 <i>US\$000</i>	30 June 2016 <i>US\$000</i>	31 December 2016 <i>US\$000</i>
Current:			
Federal	-	-	-
Foreign	152	116	197
State	-	-	2
Total current provision	152	116	199
Deferred:			
Federal	-	-	-
Foreign	-	-	-
State	-	-	-
Total deferred provision	-	-	-
Total provision for income taxes	152	116	199

The provision for income tax varies from the amount computed by applying the statutory corporate federal tax rate of 34 percent, primarily due to the effect of certain nondeductible expenses, foreign withholding tax, and changes in valuation allowances.

A reconciliation of the differences between the effective tax rate and the federal statutory tax rate is as follows:

	30 June 2017	30 June 2016	31 December 2016
Federal statutory income tax rate	34.0%	34.0%	34.0%
State tax rate, net of federal benefit	(0.4%)	0.7%	(0.1%)
Valuation allowance	(47.9%)	(37.5%)	(36.2%)
Other	(0.4%)	(0.1%)	0.1%
Foreign withholding tax	(28.5%)	(5.5%)	(4.2%)
Effective income tax rate	(43.2%)	(8.4%)	(6.4%)

The significant components of deferred income taxes included in the balance sheets are as follows:

	30 June 2017 <i>US\$000</i>	30 June 2016 <i>US\$000</i>	31 December 2016 <i>US\$000</i>
Deferred tax assets			
Net operating loss	7,289	6,586	7,140
Equity compensation	424	424	413
Research and development credits	159	159	159
Allowance for bad debts	72	-	49
Accrued liability	4	8	7
Charitable contributions	10	9	10
Other	37	24	37
Total gross deferred tax asset	7,995	7,210	7,815
Deferred tax liabilities			
Property and equipment	(982)	(962)	(971)
Total gross deferred tax liability	(982)	(962)	(971)
Net deferred tax asset before valuation allowance	7,013	6,248	6,844
Valuation allowance	(7,013)	(6,248)	(6,844)
Net deferred tax asset (liability)	-	-	-

Deferred tax assets and liabilities are recorded based on the difference between an asset or liability's financial statement value and its tax reporting value using enacted rates in effect for the year in which the differences are expected to reverse, and for other temporary differences as defined by ASC-740, Income Taxes. At 30 June 2017, the Company has recorded a valuation allowance of \$7.0 million for which it is more likely than not that the Company will not receive future tax benefits due to the uncertainty regarding the realisation of such deferred tax assets.

As of 30 June 2017, the Company has approximately \$20.4 million of gross U.S. federal net operating loss carry forwards and \$5.3 million of gross state net operating loss carry forwards that will begin to expire in the 2019 tax year.

The FASB issued Interpretation ASC-740-10-25, Income Taxes, an interpretation of ASC-740 which clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognised in the financial statements. Under ASC-740, the impact of an uncertain income tax position on the income tax return must be recognised at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. ASC-740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. ASC-740 applies to all tax positions related to income taxes.

As a result of the adoption and implementation of ASC-740, a tax position is recognised as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognised is the largest amount of tax benefit that has a greater than 50 percent likelihood of being realised on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognises interest and penalties related to tax positions in income tax expense. At 30 June 2017 and 2016, and 31 December 2016, there was no accrual for uncertain tax positions or related interest.

The Company's tax years 2013 through 2016 remain subject to examination by federal, state and foreign income tax jurisdictions.

## **8. Line of credit**

In October 2014, the Company entered into a bank line of credit that allows for borrowings up to \$500,000. The line of credit is revolving and is payable on demand. There was no balance on the line of credit at 30 June 2017 and 2016, and 31 December 2016. The facility matures in October 2017 and is secured by the assignment of a deposit account held by the lender. The line of credit carries a variable interest rate of 0.5 percentage points under an independent index which is the Wall Street Journal Prime and is calculated by applying the ratio of the interest rate over a year of 360 days multiplied by the outstanding principal balance multiplied by the actual number of days the principal balance is outstanding. The interest rate on 30 June 2017 and 2016, and 31 December 2016 was 3.75 percent, 3.00 percent and 3.25 percent, respectively. There was no interest expense related to this loan for the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016.

## **9. Note payable**

On 27 March 2013, the Company entered into a term loan agreement with a lender for the purchase of property and a building for its manufacturing operations and corporate offices. The note is secured by the property and building. The Company borrowed proceeds of \$2,285,908 at a fixed interest rate of 4.45 percent. The loan has a ten year term with monthly payments based on a twenty year amortisation. There is a one-time payment at the end of the term of the note of approximately \$1,400,000. In accordance with the terms of the agreement, the Company is required to keep \$500,000 in a deposit account with the lending bank. As of 30 June 2017 and 2016, and 31 December 2016, the Company had restricted cash of \$500,000 related to the loan agreement. Future maturities of long-term debt are as follows as of 30 June 2017:

<u>Year ending 31 December (USD, in thousands)</u>	
2017	43
2018	89
2019	93
2020	97
2021	102
Thereafter	1,540
	<u>1,964</u>

## **10. Stock compensation**

### *Stock options*

In July 2011, the Company's shareholders approved the Conversion Shares and the Directors' Shares, as well as the Plan Shares and Omnibus Performance Incentive Plan ("Plan"). This included the termination of all outstanding stock incentive plans, cancellation of all outstanding stock incentive agreements, and the awarding of stock incentives to Directors and certain employees and consultants. The Company established the Plan to attract and retain Directors, officers, employees and consultants. The Company reserved an amount equal to 10 percent of the Common Shares issued and outstanding immediately following the Public Offering.

Upon the issuance of these additional shares, an award of share options was made to the Directors and certain employees and consultants, and a single award of restricted shares was made to a former Chief Financial Officer. In addition, additional stock options were awarded in each year subsequent. The awards of stock options and restricted shares made upon issuance were in respect of 85 percent of the Common Shares available under the Plan, equivalent to 8.5 percent of the Public Offering. The total number of shares reserved for stock awards and options under this Plan is 1,877,011 with 1,192,042 shares allocated as of 30 June 2017. The shares are all allocated to employees, executives and consultants.

The options granted to Non-Executive Directors, unless otherwise agreed, vest contingent on continuing service with the Company at the vesting date and compliance with the covenants applicable to such service.

Employee options either vest over three years with a third vesting ratably each year, or partially on issuance and partially over the following 24 month period. Vesting accelerates in the event of a change of control. Options granted to Non-Executive Directors and one executive vest partially on issuance and will vest partially one to two years later. The remaining Non-Executive Director options expired at the end of 2016.

As discussed in Note 2, the Company uses the Black Scholes valuation model to measure the fair value of options granted. Since the Company does not have a sufficient trading history from which to calculate its historical volatility, the Company's expected volatility is based on a basket of comparable companies' historical volatility. As the Company's initial options were granted in 2011, the Company does not have sufficient history of option exercise behavior from which to calculate the expected term. Accordingly, the expected terms of options are calculated based on the short-cut method commonly utilised by newly public companies. The risk free interest rate is based on a blended average yield of two and five year United States Treasury Bills at the time of grant. The assumptions used in the Black Scholes option pricing model for options granted in 2016 and 2017 were as follows:

	Number of Options Granted	Grant Date	Risk-Free Interest Rate	Expected Term	Volatility	Exercise Price	Fair Value Per Option
<b>2016</b>	25,000	01/02/2016	1.62%	5.75 years	56.00%	\$0.34	\$0.18
	345,000	14/03/2016	1.70%	5.75 years	54.50%	\$0.40	\$0.20
<b>2017</b>	205,000	26/05/2017	1.69%	5.75 years	56.70%	\$0.75	\$0.39

The Company assumes a dividend yield of 0.0%.

The following table summarises the Company's stock option activity for the six months ended 30 June 2017:

Stock Options	Shares	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Average Grant Date Fair Value
Outstanding at 31 December 2016	1,139,556	\$2.56	5.9	\$1,372,852
Granted	205,000	\$0.75	5.8	\$79,950
Forfeited	(152,514)	\$2.04		

Outstanding at 30 June 2017	1,192,042	\$2.31	5.9	\$1,300,481
Exercisable at 30 June 2017	769,292	\$3.15	6.4	

A summary of the status of unvested options as of 30 June 2017 and changes during the six months ended 30 June 2017 is presented below:

Unvested Options	Shares	Weighted-Average Fair Value at Grant Date
Unvested at 31 December 2016	341,833	\$0.65
Granted	205,000	\$0.39
Vested	(54,000)	\$1.16
Forfeited	(70,083)	
Unvested at 30 June 2017	422,750	\$0.41

As of 30 June 2017, total unrecognised compensation cost of \$151,000 was related to unvested share-based compensation arrangements awarded under the Plan.

## 11. Commitments and contingencies

**Operating leases** – The Company leases certain facilities and equipment under non-cancelable operating leases which expire at varying times between January 2018 and May 2019. Certain of these leases have escalating rent payments which result in the Company recording a deferred rent liability.

Future minimum lease payments under the operating leases, together with the present value of minimum lease payments as of 30 June 2017 are as follows:

	Future Lease Payments US\$000
Year Ending 31 December	
2017	99
2018	116
2019	45
Total future lease payments	260

Rent expense for the six months ended 30 June 2017 and 2016, and the year ended 31 December 2016 was approximately \$165,000, \$172,000 and \$337,000, respectively.

## 12. Related party transactions

The Company has held a patent rights purchase agreement since 2009 with a shareholder as described in Note 6.

### 13. Segment and geographic information

ASC 280-10, *Disclosures About Segments of an Enterprise and Related Information* (ASC 280-10), establishes standards for reporting information about operating segments. ASC 280-10 requires that the Company report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance. The Company's CODM is the Chief Executive Officer (CEO). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed on an aggregate basis as of 30 June 2017. For the six months ended 30 June 2017, the Company's revenues were generated primarily in the Middle East and the United States (U.S.). Additionally, the majority of the Company's expenditures and personnel either directly supported its efforts in the Middle East and the U.S., or cannot be specifically attributed to a geography. Therefore, the Company has only one reportable operating segment.

Revenues from customers by geography are as follows:

(USD, in thousands)	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
Middle East	2,767	2,609	3,989
United States	816	811	1,766
Other	2,294	525	2,168
Total	<u>5,877</u>	<u>3,945</u>	<u>7,923</u>

Equipment leased to customers by geography is as follows:

(USD, in thousands)	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
Middle East	6,391	6,391	6,391
United States	1,698	2,118	2,071
Other	375	375	375
Total	<u>8,464</u>	<u>8,884</u>	<u>8,837</u>

### 14. Concentrations

At 30 June 2017, two customers, one with four contracts with three separate plants represented 84 percent of accounts receivable. During the six months ended 30 June 2017, the Company received 81 percent of its gross revenue from two customers, one with four contracts with three separate plants.

At 30 June 2016, two customers, one with three contracts with three separate plants represented 78 percent of accounts receivable. During the six months ended 30 June 2016, the Company received 62 percent of its gross revenue from one customer with three contracts with three separate plants.



At 31 December 2016, two customers, one with three contracts with three separate plants, represented 61 percent of accounts receivable. During the year ended 31 December 2016, the Company received 67 percent of its gross revenue from two customers, one with three separate plants.

#### **15. Subsequent events**

The Company discloses material events that occur after the balance sheet date but before the financials are issued. In general, these events are recognised in the financial statements if the conditions existed at the date of the balance sheet, but are not recognised if the conditions did not exist at the balance sheet date. Management has evaluated subsequent events through 13 September 2017, the date the interim results were available to be issued, and no events have occurred which require further disclosure.

## **Forward Looking Statements**

This release contains certain statements that are or may be "forward-looking statements". These statements typically contain words such as "intends", "expects", "anticipates", "estimates" and words of similar importance. All the statements other than statements of historical facts included in this announcement, including, without limitation, those regarding the Company's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Company's products and services) are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future and therefore undue reliance should not be placed on such forward-looking statements. There are a number of factors that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future and such assumptions may or may not prove to be correct. Forward-looking statements speak only as at the date they are made. Neither the Company nor any other person undertakes any obligation (other than, in the case of the Company, pursuant to the AIM Rules for Companies) to update publicly any of the information contained in this announcement, including any forward-looking statements, in the light of new information, change in circumstances or future events.